

Annual Report
FIRST NATIONAL STORES INC.
year ending

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March 31st 1934

FIRST NATIONAL STORES INC.

Officers

AUGUSTUS F. GOODWIN

Chairman of Board of Directors and Executive Committee

ARTHUR O'KEEFFE, President

JAMES C. DUANE

BERNARD F. McGOLDRICK

MORRIS JOSELOFF

JOHN L. MACNEIL

RALPH F. BURKARD

JOHN E. ELWELL

CHARLES F. ADAMS, Treasurer

Vice-President

Vice-President

Vice-President

Vice-President

Assistant Treasurer

Clerk



Executive Committee

AUGUSTUS F. GOODWIN, *Chairman*

CHARLES F. ADAMS

MORRIS JOSELOFF

BERNARD F. McGOLDRICK

ARTHUR O'KEEFFE



Directors

CHARLES F. ADAMS

CHARLES H. BURGER

RALPH F. BURKARD

MARTIN CURRY

JAMES C. DUANE

BYRON M. FLEMMING

AUGUSTUS F. GOODWIN

ROBERT F. IRWIN

MORRIS JOSELOFF

SAMUEL JOSELOFF

JOHN L. MACNEIL

BERNARD F. McGOLDRICK

JOHN L. McHENRY

CHARLES E. MERRILL

JAMES J. O'HARE

MICHAEL J. O'HARE

ARTHUR O'KEEFFE

ROLAND C. POWERS

NATHANIEL E. WHITTEMORE

Somerville, Massachusetts, June 8, 1934.

TO THE STOCKHOLDERS OF
FIRST NATIONAL STORES INC.:

On behalf of your Directors, I submit for your consideration and approval the Annual Report of your Company for the fiscal year ending March 31, 1934.

Following the accounting practice of many years' standing, all figures given in this report are comparable to those of previous years and there has been no change in the Company's established method of bookkeeping. The balance sheet, statement of earnings, and the surplus account have been prepared by independent auditors, Messrs. Price, Waterhouse & Co., and their certificate is a part of this report.

During this year of unusual economic conditions, your Company, as has industry in general, found new and pressing problems requiring changes in policies and duties of management. It is the hope of your Directors and of all those who are active in directing the affairs of the Company that stockholders will consider the results secured, as indicated by this report, as satisfactory.

Summarizing the results of the operations for the year, there was an improvement in retail store sales resulting in larger earnings per share of common stock; and a considerable addition was made to net working capital, with a substantial improvement in the earned surplus of the Company—all of which is indicated by the following condensed statement.

	<i>For the Fiscal Year Ending</i>	
	<i>March 31, 1934</i>	<i>April 1, 1933</i>
Retail Store Sales	\$105,812,781	\$100,892,947
Net Profits after Taxes, Depreciation and all Charges and available for Dividends	\$4,394,830	\$4,220,099
Earnings per share of Common Stock after Preferred Dividends (on shares outstanding at end of year) .	\$4.97	\$4.78
	<i>As of</i>	
	<i>March 31, 1934</i>	<i>April 1, 1933</i>
Net Working Capital (Current Assets less Current Liabilities)	\$13,534,845	\$10,394,720
Fixed or Property Assets (less Depreciation)	\$11,573,102	\$12,332,552
Net Worth	\$26,190,916	\$24,644,094
Earned Surplus	\$12,852,924	\$11,054,489

For comparative purposes, on the following page graphic charts have been created covering the last eight years, presenting the important exhibits which represent the essence or net results of the work of your management and operating personnel.

DEPRECIATION CHARGES AND MAINTENANCE CHARGES

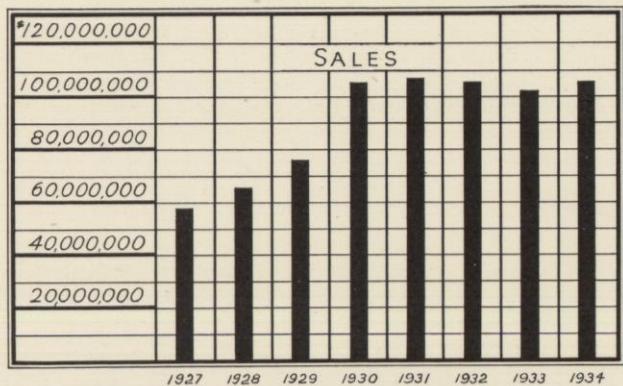
	<i>Fiscal Years</i>		
	<i>1934</i>	<i>1933</i>	<i>1932</i>
Depreciation Charges	\$1,154,166	\$1,014,511	\$906,383

These sums were charged against earnings in their respective years to cover depreciation on all tangible assets which cover Buildings, Machinery, Trucks, Automobiles, Fixtures, Equipment, etc.

There has been no change in the accounting practices of your Company affecting such charges. All assets subject to depreciation are carried upon the books of the Company at cost, less an annual percentage of depreciation based upon the estimated life of such Assets.

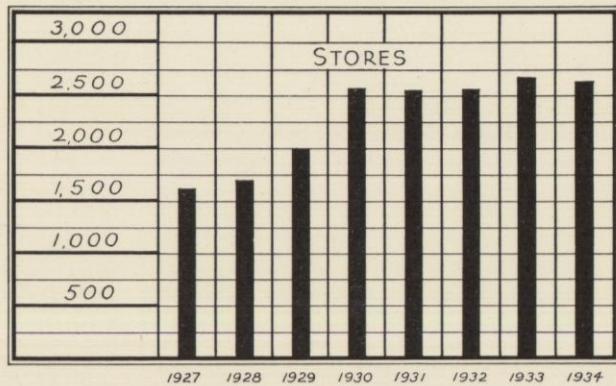
There are Fixed Assets amounting to \$16,883,135 subject to depreciation charges. This sum includes land and buildings owned, store fixtures, improvements, machinery, equipment and automobiles.

At the time of the merger of the four chain grocery companies making up the First National Stores Inc. in 1926, no important or valuable owned warehouse was in operation, and manufacturing facilities were but partially developed. Since the merger, the large Somerville Base was begun, and the present



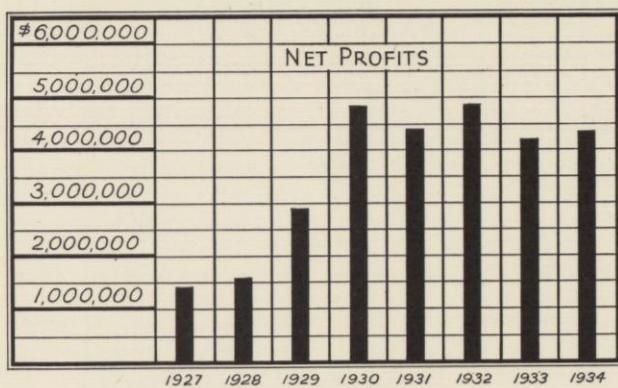
Retail Store Sales — Fiscal Years

Year	Sales (\$)
1927	\$59,038,304
1928	64,445,962
1929	75,884,639
1930	107,635,216
1931	\$108,196,686
1932	107,634,383
1933	100,892,947
1934	105,812,781



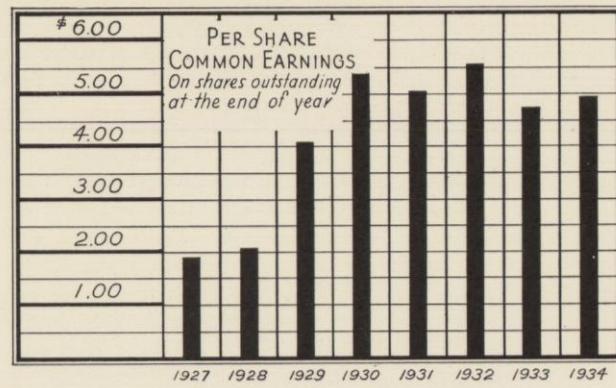
Stores — Fiscal Years

Year	Stores
1927	1,681
1928	1,717
1929	2,002
1930	2,549
1931	2,548
1932	2,546
1933	2,705
1934	2,653



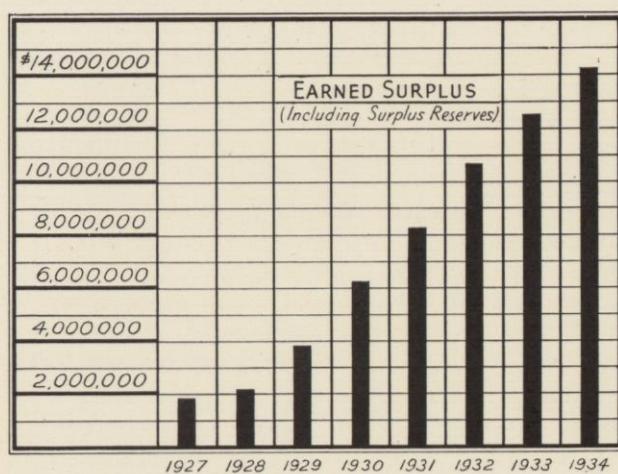
Net Profits — Fiscal Years

Year	Net Profits (\$)
1927	\$1,492,193
1928	1,593,358
1929	2,904,884
1930	4,773,446
1931	\$4,479,108
1932	4,825,611
1933	4,220,099
1934	4,394,830



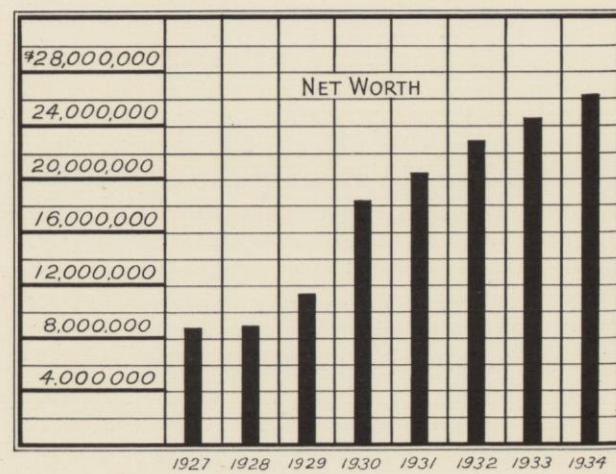
Per Share Common — Fiscal Years

Year	Earnings (\$)
1927	\$1.92
1928	2.09
1929	4.07
1930	5.39
1931	\$5.03
1932	5.52
1933	4.78
1934	4.97



Surplus (Including Surplus Reserves)
Fiscal Years

Year	Surplus (\$)
1927	\$1,996,375
1928	2,238,303
1929	3,987,782
1930	6,369,726
1931	\$8,371,910
1932	10,816,321
1933	12,666,672
1934	14,213,494



Net Worth — Fiscal Years

Year	Net Worth (\$)
1927	\$8,723,782
1928	8,965,710
1929	11,724,410
1930	18,347,148
1931	\$20,349,333
1932	22,793,743
1933	24,644,094
1934	26,190,916

volume of sales supports manufacturing and processing on a considerable scale. The opening and expansion of large combination markets selling groceries, meats, fruits, vegetables, etc., began after the merger.

Your Company, therefore, has the advantage of the investment of this considerable sum in a large part representing recent and modern, and, therefore, efficient Fixed Assets.

	Fiscal Years		
	1934	1933	1932
Maintenance Charges	\$544,123	\$636,286	\$564,005

All Fixed Assets of the Company are maintained on a high order of upkeep and all maintenance charges and repairs are charged against operating profits.

DIVIDENDS PAID

During the past fiscal year your Company paid regular dividends of \$1.75 per quarter or \$7 per share on Preferred Stock outstanding for the year.

There was paid on the Common Stock outstanding dividends of $62\frac{1}{2}\%$ per quarter or \$2.50 per share for the year.

For many years your Directors have been conservative in dividend distribution and through investment of the balance of earnings, existing plants or warehouses have been improved, manufacturing departments equipped and put in operation, old stores remodeled and new stores and combination markets opened; thus, by greater efficiency and increased sales we have been able to maintain and buttress the earning capacity of your Company.

YOUR COMPANY'S STORES AND MARKETS

Your Company had in operation on	March 31, 1934	April 1, 1933
Grocery Stores	2,233	2,308
Markets or Combination Grocery, Fruit, Vegetable and Meat Stores	420	397
Total Grocery Stores and Markets	2,653	2,705

Under the merchandising policies of your Company we seek, in store development, to combine, where possible, existing stores with larger or newer stores, or to incorporate a store or stores into a combination market which includes the sale of meats, fruits and vegetables as well as groceries.

With the change in residential and shopping centers in the various communities throughout New England, there is always some shifting and changing of store locations and internal store arrangement; and the trend in stores at this time is toward larger units and greater variety of merchandise with resulting increased sales.

NATIONAL INDUSTRIAL RECOVERY ACT

The N. I. R. A. program brought into operation the President's Re-employment Agreement effective August 1, 1933, which applied to Wages and Hours in Retail Food Distribution. On November 15, 1933, a subsequent N. R. A. Agreement presented a somewhat lower schedule of Wages and Hours applying to Retail Food Distribution supplanting the President's Re-employment Agreement. Your management has not generally put into operation this lower N. R. A. wage schedule, and it is now operating on a schedule that is generally higher.

That your Company is carrying its full share of employment is indicated by the statement that many more employees are on the pay rolls than a year ago, and salaries and wages for the year ending March 31, 1934, amounted to \$12,456,000, which is an increase of \$1,218,000, or 10.83% over the salaries and wages paid for the year ending April 1, 1933.

The trend of hours of employment in Retail Food Stores is toward a shorter weekly total, and to this principle your management fully subscribes.

The President of the United States on December 30, 1933, signed a Code of Fair Trade Practice for the Food Industry. The Code covers matters of selling and of operation of all the various kinds of com-

panies in the food business: corporate chains, individually operated retail grocery and meat stores, voluntary chains and wholesalers. Thus, by the provisions of a Code having the sanction of the highest authority in the land, all branches of the food industry today stand together in a relationship of co-operation.

The activities of your Executives have been immeasurably increased by the necessary and growing contacts and meetings with and reports to City, State and Federal N. R. A. and A. A. A. Administrations; also many Federal and State, Taxation and other problems. Your management has endeavored in every way to assist the N. R. A. in discharging the tremendous responsibility it has assumed.

PUBLIC RELATIONS

Your Directors fully realize that a satisfactory relationship with the public is necessary to maintain and sustain your Corporation's prestige and its future development. The interests of the public, their viewpoints and desires, must be correctly interpreted by your management and satisfactory quality products, service and pricing must be given if public interest and acceptance are to be continued.

It is definitely the responsibility of First National Stores' employees, as well as executives, to build good-will for the Company by being whole-hearted members of a public-minded institution. With this presentation of the objectives and aims of our Company it is our hope that the general consuming public whom we serve will understand, appreciate and accept these basic principles which actuate the Company in everything that it does.

Your Company carries its full share of civic responsibility in the communities it serves and it encourages local civic, church and social interest by managers and employees. It has a policy to support and maintain a constructive influence in such communities. It has always been the policy of your management to favor New England grown, raised and manufactured merchandise, for your Company is a New England institution, directed and operated by New England men, and approximately \$22,000,000 was spent last year for New England merchandise.

Your Company spends locally the largest proportion of the consumer's dollar and such expenditures include Merchandise, Light, Fuel, Power, Refrigeration, Real Estate and other Taxes, Rents and other items. In New England, local real estate owners received as rentals last year approximately \$2,567,000.

TAXATION

Your Company is subject to many different taxes, and next to wages the sum total of them is the largest individual item of expense in the business. Industry in general views with regret the rising tide of all kinds of taxation; and high and increasing taxation means a definite lowering of a high standard of living which the people of our country are entitled to enjoy.

The following summary indicates the important taxes levied against your Company for the fiscal years ending in 1934, 1933 and 1930:

	1934	1933	1930
Federal Income Taxes	\$715,242	\$710,088	\$553,586
Processing Taxes	93,254
State and Local Franchise and Personal Property Taxes	295,628	268,019	170,175
Capital Stock and Other Miscellaneous Direct Taxes	205,402	7,588
Total	\$1,309,526	\$985,695	\$723,761

This sum amounts to \$1.60 per Common share, or equals 1.24% of Sales. Not included in the above total, your Company paid Real Estate Taxes last year amounting to approximately \$136,000 on properties owned or under the terms of certain leases. This sum, however, is but a part of the total amount of taxes paid on Real Estate, as a large part of such taxes is paid by owners of properties which we occupy and which Real Estate Taxes become part of and are included in the rental we pay to such landlords.

We believe it is a fair and accurate statement that chain stores are paying more than their full share of taxation. Fair and impartial surveys taken in New England States prove that your Company pays approximately twice the per store local tax that the unincorporated, independent merchant pays.

Various discriminatory chain store tax bills have been presented in the various Legislatures of the New England States, and it is to the interest of the consuming public generally and to every stockholder

of the Company to express their opinion to those who represent them in our various Legislatures in protest against any such discriminatory chain store taxation.

Discriminatory chain store taxes are punitive measures and there is, we are glad to observe, a growing appreciation by Legislators of the public service the chains render and a general disinclination to penalize them.

REDEMPTION OF PREFERRED STOCK

Your Directors are of the belief that the corporate structure should be so arranged that eventually only the Common Shares will be outstanding. To that end, the Company's Bonds, amounting to \$1,500,000, were purchased or called for redemption on or prior to April 1, 1933.

At a meeting of your Directors on May 21, 1934, it was voted that your Executive Committee be requested to consider the matter of redemption of Preferred Stock outstanding and to present a method of redemption of all or part of such stock, to your Directors at their next meeting.

WORKING DIRECTORS

Since the merger of the companies making up the First National Stores Inc. in 1926, all Stockholders consulted and Stockholders by their votes at the Annual Meeting have indicated their belief that their interests are best served by having working Executives upon their Board of Directors, experienced men, who can meet the problems of the business as they arise from day to day and thus make first-hand decisions, assuming the responsibility which such directorship entails. Your Executive Committee and your Board of Nineteen — except three who act in an advisory capacity — have no other active business interests.

The Balance Sheet indicates that your Company has, by purchase, acquired 12,555 shares of Common Stock. Of this amount 4,570 shares are set aside under option to certain employees at a price near the market at the time such options were executed.

CONCLUSION

Your Company plays an important part in a great industry of the Nation — that of Food Distribution.

The Massachusetts Commission on the Necessaries of Life has stated that approximately 37% of the cost of living is spent in the purchase of food. The United States Department of Commerce, through its census reports, estimates that the chains operate 10% of the food stores in the country.

The First National Stores Inc. is one of the largest corporate chain distributors of food products in the country; and your Directors believe your Company can continue to hold and improve its position in the communities it now serves and can conservatively expand into new communities; and can so operate that it will benefit the public interest, and at the same time, return a reasonable and fair profit to stockholders.

I am sure that stockholders will understand and appreciate the varying and severe problems — during these unusual economic times — that their executives have been called upon to meet each day — problems that in many cases had no precedent to guide them. Experience, courage and harmony prevail throughout the organization and furnish the solid foundation upon which the continuing success of your Company rests.

On behalf of the Board of Directors and of the Company Executives, I wish to express their appreciation to the working personnel for their loyalty and continued belief in each other and in the Company. A happy and contented personnel is necessary to prosperity; and it is a main objective of your management to seek this understanding and maintain an agreeable relation between Employee and Employer.

A notice of the Annual Meeting of stockholders and a proxy accompany this Report. Your Company will appreciate an early receipt of the executed proxies from Common stockholders in order to facilitate their checking and listing.

BY ORDER OF THE BOARD OF DIRECTORS
AUGUSTUS F. GOODWIN
Chairman

FIRST NATION STORES

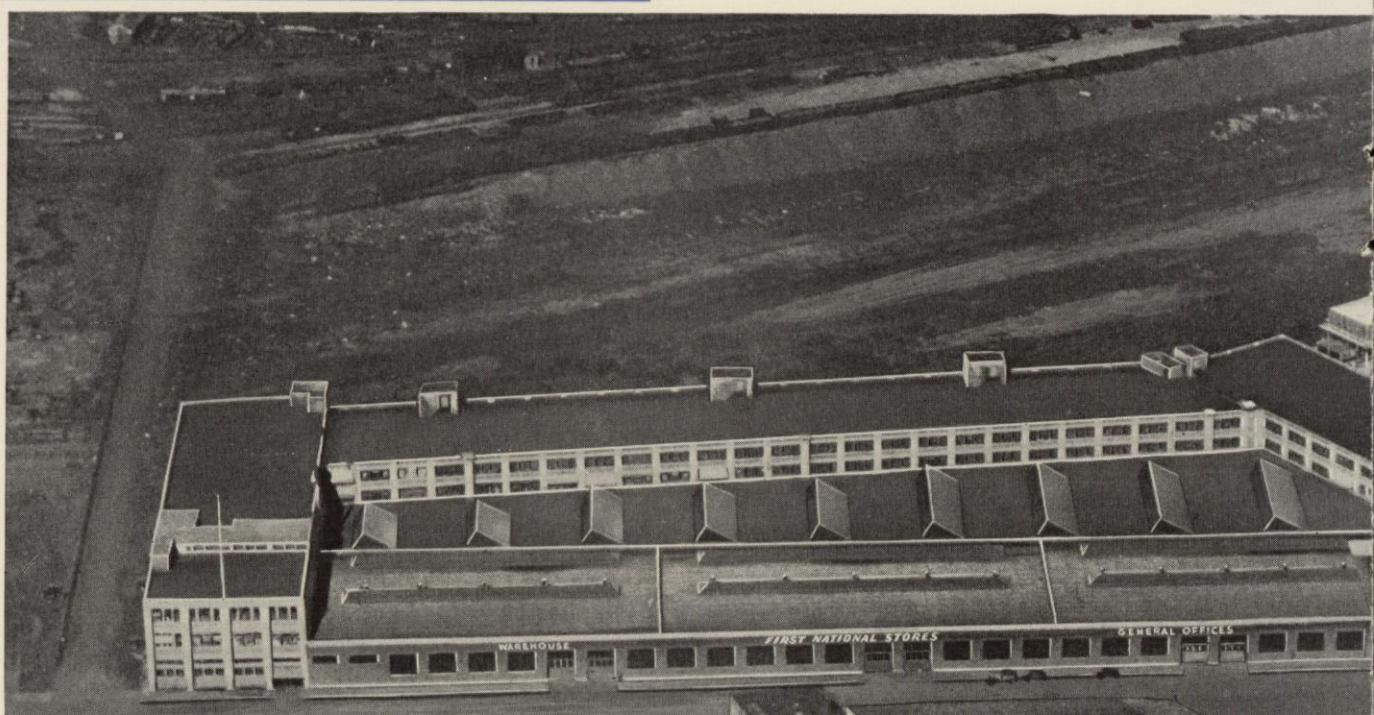
VIEWS OF REPRESENTATIVE
TYPE OF STORE,
UNITS AND OF THE
BASE AT SEATTLE



Interior View of combination Grocery, Meat, Fish
and Vegetable Market



View of a representative fleet of transportation vehicles



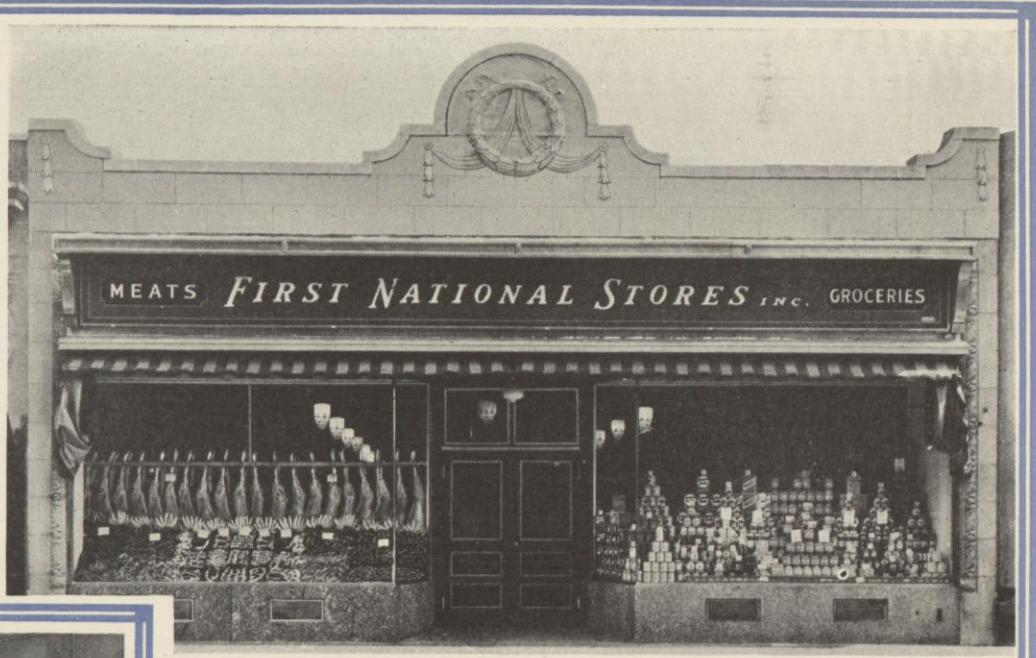
THE GREAT CENTRAL BASE OF FIRST NATIONAL STORES
Distributing to more than 1700 of the company's stores.
and Providing Service to Millions

NATIONAL STORES INC.

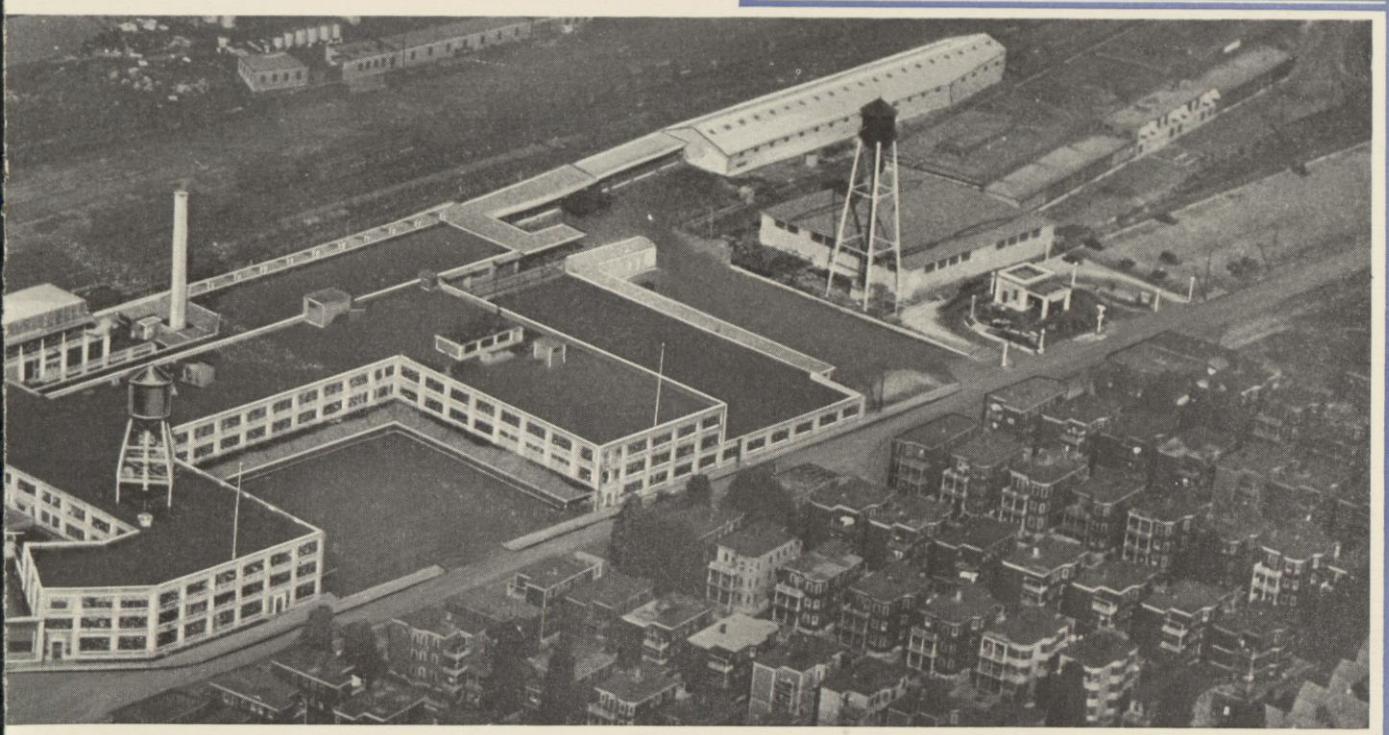
REPRESENTATIVE MARKET
TRANSPORTATION
THE GREAT CENTRAL
ROUTE TO SOMERVILLE.



Transportation units, First National Stores Inc.



Exterior View of combination Grocery, Meat, Fish
and Vegetable Market

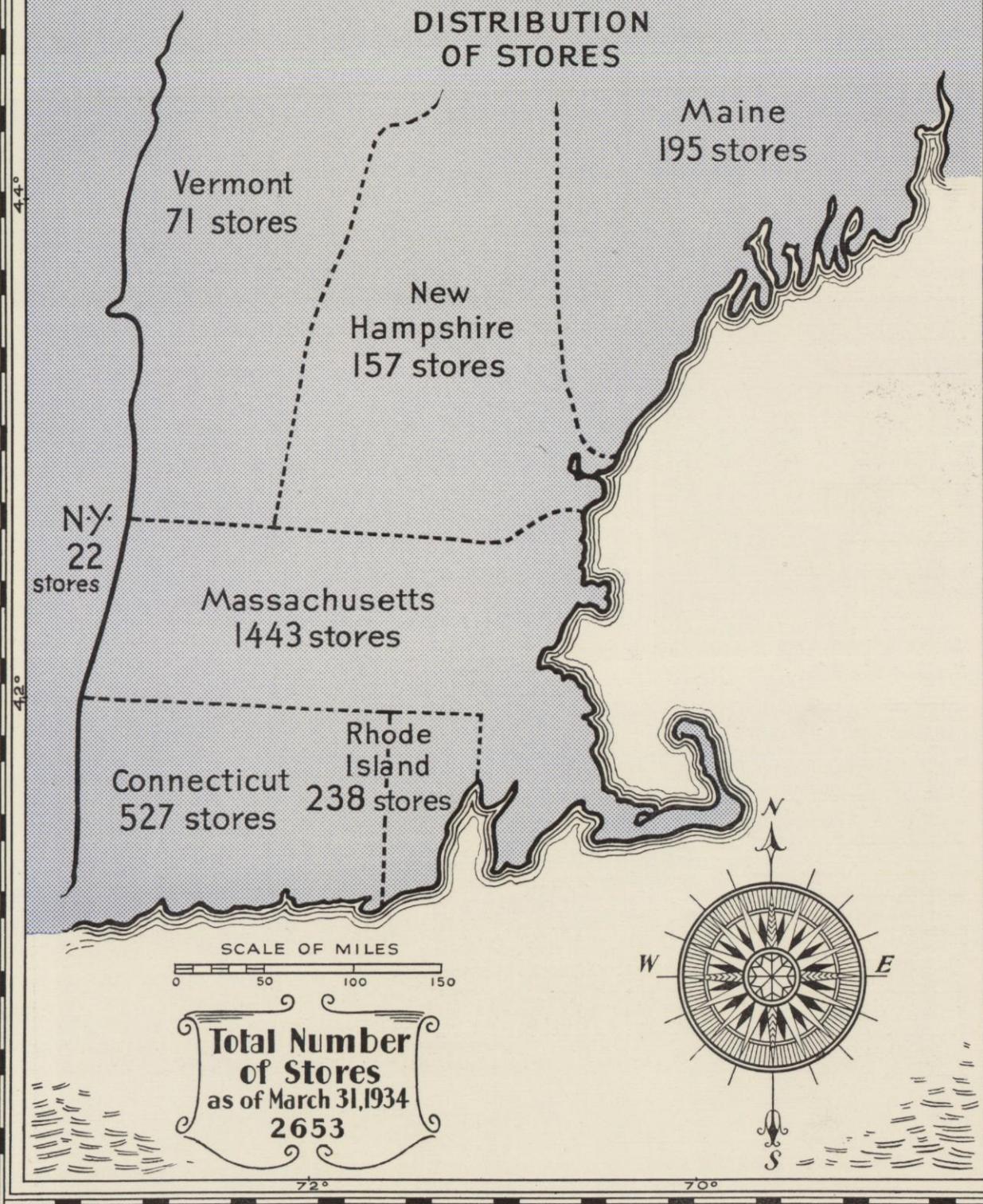


NATIONAL STORES INC., SOMERVILLE, MASS.
Other bases at East Hartford, Conn., Bridgeport, Conn.,
Providence, R. I.



FIRST NATIONAL STORES INC.

GEOGRAPHICAL DISTRIBUTION OF STORES





Representative private brand products of the manufacturing
departments of FIRST NATIONAL STORES Inc.

FIRST NATIONAL STORES INC.
Comparative Balance Sheets—March 31, 1934 and April 1, 1933

ASSETS			
	<i>March 31, 1934</i>	<i>April 1, 1933</i>	Increase *Decrease
CURRENT ASSETS:			
Cash in banks and on hand (after deducting dividends paid April 2nd)	\$3,043,311.03	\$2,655,028.75	\$388,282.28
U. S. Government securities	3,782,346.04	2,739,683.07	1,042,662.97
Accounts receivable, less reserve	422,603.66	566,025.57	*143,421.91
Accounts receivable, officers and employees	6,486.55	7,655.68	*1,169.13
Inventories of merchandise, materials and supplies, on hand and in transit, at cost or market, whichever lower	10,624,052.44	8,637,741.55	1,986,310.89
Total current assets	<u>\$17,878,799.72</u>	<u>\$14,606,134.62</u>	<u>\$3,272,665.10</u>
INVESTMENTS, ETC.:			
First National Stores Inc.:			
Common stock at book value — 12,555 shares at March 31, 1934	\$633,964.58	\$765,549.38	*\$131,584.80
First preferred stock at cost — 1,392 shares at March 31, 1934	147,748.80	167,532.55	*19,783.75
Pipestone Produce Company — wholly owned creamery subsidiary	142,603.12	167,333.04	*24,729.92
Deposits in closed and restricted banks, less reserves	77,590.16	133,847.85	*56,257.69
Miscellaneous securities and advances (including R. E. Cobb Company, partly owned subsidiary)	215,411.00	224,071.99	*8,660.99
Total investments, etc.	<u>\$1,217,317.66</u>	<u>\$1,458,334.81</u>	<u>*\$241,017.15</u>
DEFERRED CHARGES:			
Prepaid insurance and expenses	\$368,521.98	\$458,485.48	*\$89,963.50
FIXED ASSETS (at cost):			
Land and buildings owned	\$6,027,704.63	\$6,019,529.79	\$8,174.84
Less — Reserve for depreciation	828,487.76	677,414.24	151,073.52
	<u>\$5,199,216.87</u>	<u>\$5,342,115.55</u>	<u>*\$142,898.68</u>
Store fixtures, leased property improvements, machinery and equipment	\$10,248,615.24	\$10,173,023.01	\$75,592.23
Automobiles	606,815.62	582,631.40	24,184.22
	<u>\$10,855,430.86</u>	<u>\$10,755,654.41</u>	<u>\$99,776.45</u>
Less — Reserve for depreciation	4,481,545.26	3,765,217.57	716,327.69
	<u>\$6,373,885.60</u>	<u>\$6,990,436.84</u>	<u>*\$616,551.24</u>
Total fixed assets	<u>\$11,573,102.47</u>	<u>\$12,332,552.39</u>	<u>*\$759,449.92</u>
GOODWILL			
	\$1.00	\$1.00
	<u>\$31,037,742.83</u>	<u>\$28,855,508.30</u>	<u>\$2,182,234.53</u>

FIRST NATIONAL STORES INC.

Comparative Balance Sheets—March 31, 1934 and April 1, 1933

	LIABILITIES		
	March 31, 1934	April 1, 1933	Increase *Decrease
CURRENT LIABILITIES:			
Acceptances payable under letters of credit	\$231,152.68	\$123,470.02	\$107,682.66
Note payable	50,000.00		*50,000.00
Accounts payable and accrued expenses	2,928,535.08	2,834,633.46	93,901.62
Employees' investment certificates	429,790.00	500,875.00	*71,085.00
Provision for federal income taxes	754,477.28	702,435.84	52,041.44
Total current liabilities	\$4,343,955.04	\$4,211,414.32	\$132,540.72
RESERVES:			
For contingencies	\$334,600.58	\$334,600.58
For sinking fund preferred stocks	1,360,570.00	1,140,570.00	\$220,000.00
Miscellaneous	168,271.50	137,011.84	31,259.66
Total reserves	\$1,863,442.08	\$1,612,182.42	\$251,259.66
CAPITAL STOCK:			
7% first preferred:			
Authorized and issued or held for exchange for 8% preferred—50,000 shares, par value \$100 each	\$5,000,000.00	\$5,000,000.00
Common:			
Authorized — 1,000,000 shares without par value			
Issued — 827,634 shares	6,977,422.07	6,977,422.07
Total capital stock	\$11,977,422.07	\$11,977,422.07
EARNED SURPLUS			
	\$12,852,923.64	\$11,054,489.49	\$1,798,434.15
	\$31,037,742.83	\$28,855,508.30	\$2,182,234.53

TO THE STOCKHOLDERS OF FIRST NATIONAL STORES INC.:

We have made an examination of the balance sheets of First National Stores Inc. as at March 31, 1934 and April 1, 1933 and of the statements of earnings and surplus for the fiscal year ending March 31, 1934. In connection therewith, we examined or tested accounting records of the Company and other supporting evidence and obtained information and explanations from officers and employees of the Company; we also made a general review of the accounting methods and of the operating and income accounts for the year but we did not make a detailed audit of all transactions.

In our opinion, based upon such examination, the accompanying balance sheets and related statements of earnings and surplus fairly present, in accordance with accepted principles of accounting, consistently maintained by the Company during the year under review, its position at March 31, 1934 and April 1, 1933 and the results of its operations for the fiscal year ending March 31, 1934.

Boston, Massachusetts
May 23, 1934

PRICE, WATERHOUSE & CO.

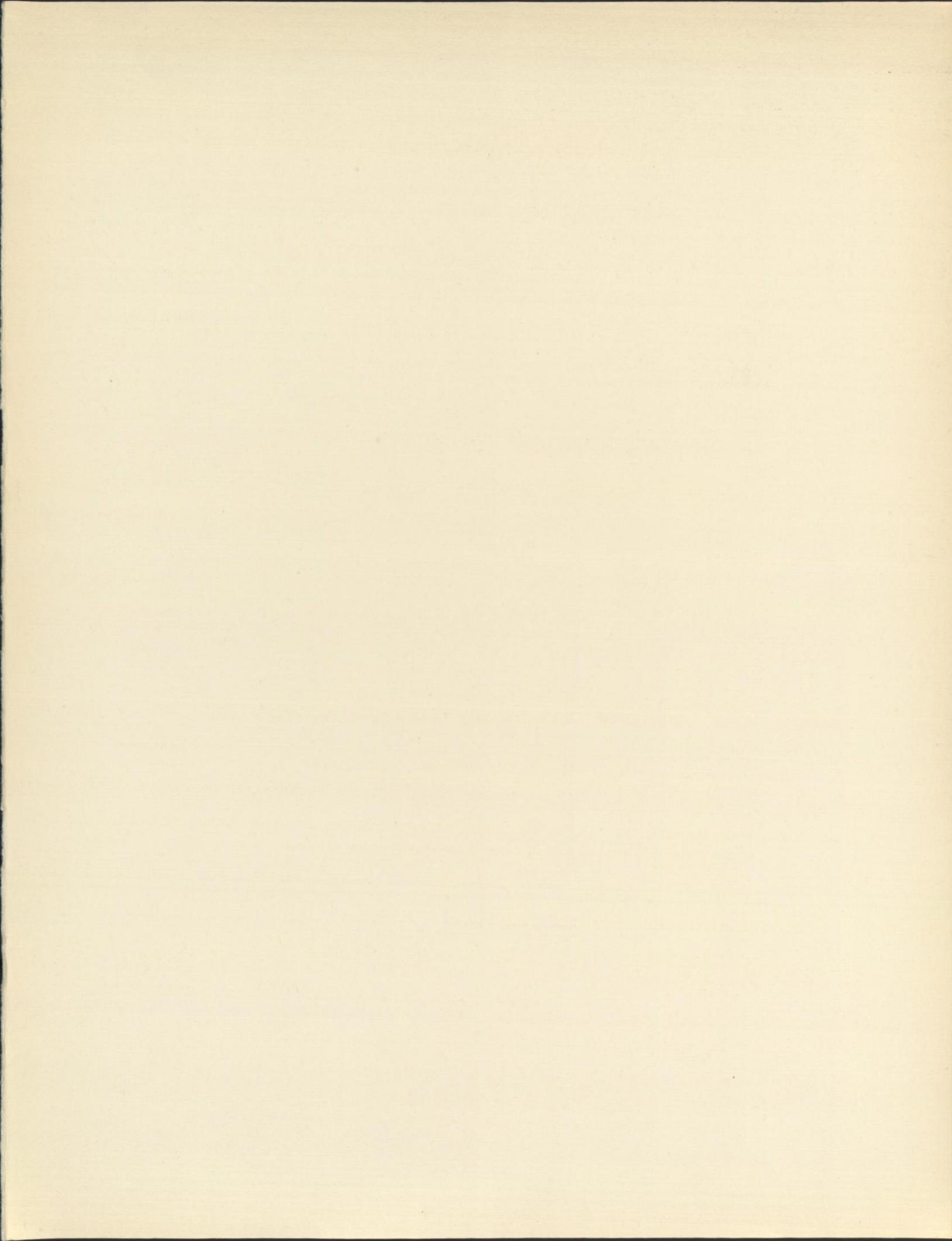
FIRST NATIONAL STORES INC.

STATEMENT OF EARNINGS — FISCAL YEAR ENDING MARCH 31, 1934

Sales	\$105,812,781.10
<i>Less:</i>	
Cost of sales, expenses, etc.	99,513,189.98
	<hr/>
	\$6,299,591.12
<i>Deduct:</i>	
Depreciation on fixed assets	1,154,165.85
	<hr/>
	\$5,145,425.27
<i>Add:</i>	
Interest and dividends received (net)	45,793.14
	<hr/>
	\$5,191,218.41
<i>Deduct:</i>	
Loss on disposition of capital assets, etc.	81,146.37
	<hr/>
	\$5,110,072.04
<i>Deduct:</i>	
Provision for federal income taxes	715,241.54
	<hr/>
Net profit for the fiscal year ending March 31, 1934	\$4,394,830.50
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SURPLUS ACCOUNT FOR THE YEAR ENDING MARCH 31, 1934

Earned surplus at April 1, 1933	\$11,054,489.49
Net profit for the fiscal year ending March 31, 1934	\$4,394,830.50
<i>Less:</i>	
Dividends paid:	
Preferred stock	\$339,950.10
Common stock	2,036,446.25
	<hr/>
Balance after dividends	\$2,018,434.15
Provision for sinking fund 7% first preferred stock	220,000.00
	<hr/>
Balance added to surplus	1,798,434.15
Earned surplus at March 31, 1934	<hr/> \$12,852,923.64



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